

**THE HOUSING AND REDEVELOPMENT  
COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF  
THE CITY OF WATERTOWN, SOUTH DAKOTA**

**FINANCIAL REPORT**

**DECEMBER 31, 2016**

**RECEIVED**  
**JUL 25 2017**  
**LEGISLATIVE AUDIT**

## **C O N T E N T S**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners  
The Housing and Redevelopment Commission  
of the City of Watertown, South Dakota  
Watertown, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, ("Commission") as of December 31, 2016, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated July 11, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2016-001, that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Commission's Response to Findings**

The Commission's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Uilhauer Raml & Snyder P.C.

Watertown, South Dakota  
July 11, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Commissioners  
The Housing and Redevelopment Commission  
of the City of Watertown, South Dakota  
Watertown, South Dakota

**Report on Compliance for Each Major Federal Program**

We have audited The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, ("Commission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended December 31, 2016. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of current audit findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.



### **Report on Internal Control Over Compliance**

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2016-001, that we consider to be a material weakness.

The Commission's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of current audit findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

*Uilhauer Raml & Snyder P.C.*

Watertown, South Dakota  
July 11, 2017



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
December 31, 2016**

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**Prior Federal Audit Findings**

2015-001

A significant deficiency and material weakness was reported for a lack of segregation of duties and has existed since the Commission was established. This finding has not been corrected and is restated under current other audit findings as finding number 2016-001.

**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
December 31, 2016**

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**Summary of the Independent Auditor's Results**

**Financial Statements**

- a. An unmodified opinion was issued on the financial statements of the business-type activity of the Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties as discussed in finding number 2016-001.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

**Federal Awards**

- d. A material weakness was disclosed for internal control over major federal programs for a lack of segregation of duties affecting all compliance requirements as discussed in finding number 2016-001.
- e. An unmodified opinion was issued on compliance with requirements applicable to the major program.
- f. Our audit disclosed audit findings that are required to be disclosed in accordance with The Uniform Guidance. See finding number 2016-001.
- g. The federal award tested as a major program was CFDA No. 14.871, Section 8 Housing Choice Vouchers.
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, did not qualify as a low-risk auditee.

**Current Federal Audit Findings**

**Internal Control Related Findings-Material Weakness**

Finding # 2016-001

Criteria: Misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Condition: A material weakness was reported for a lack of segregation of duties for the revenue, expenditure and payroll functions. This finding was also reported as a material weakness for internal control over the Section 8 Housing Choice Vouchers (CFDA 14.871) major program.

Effect: The possible asserted effect of this condition is the misappropriation of cash or other assets.

Cause: The limited staff size of the Commission does not allow for proper oversight.

Identification of Repeat Finding: This is a repeat audit finding.

Recommendation: We recommend management continue to segregate sensitive functions as much as possible to provide compensating internal controls, whenever and wherever, possible and practical.

Response: The Commission agrees with the above finding and has responded to it in the corrective action plan.



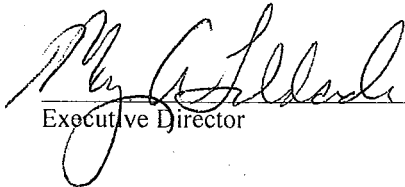


**Watertown Housing Authority**

24 West Kemp • Watertown, SD 57201-3538  
605-886-7731

Finding Number 2016-001: Significant deficiency in internal controls due to a lack of segregation of duties.

Planned Corrective Action: The Commission's Executive Director, Mary A. Goldade, is the contact person responsible for the corrective action plan for this finding. This finding is a result of the size of the Commission, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Commission has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The Commission is aware of this problem and will continue to develop policies and procedures and provide compensating controls to reduce the risk of misappropriation of assets. This will be an ongoing process, requiring continual analysis of processes and procedures in order to minimize the risk. However, it is not practical to take significant enough steps to remove the finding completely.

  
Executive Director

  
Chairperson



## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
The Housing and Redevelopment Commission  
of the City of Watertown, South Dakota  
Watertown, South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, ("Commission") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Commission as of December 31, 2016, and the results of its operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



### **Report on Summarized Comparative Information**

We have previously audited the Commission's financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated July 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 10-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

The listing of the members of the board of commissioners on page 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's financial statements. The schedule of expenditures of federal awards on page 26, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the supplemental financial data schedules on pages 27-32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated July 11, 2017, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Vilhauer Raml & Snyder P.C.

Watertown, South Dakota  
July 11, 2017

## **HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN, SD**

### **Management's Discussion and Analysis (Unaudited)**

**December 31, 2016**

This section of the Housing and Redevelopment Commission of the City of Watertown, South Dakota's ("the Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended December 31, 2016. This analysis is meant to provide additional insight into the Authority's activities and should be read in conjunction with the Independent Auditor's Report, financial statements, notes to the financial statements and supplementary information.

#### **The Authority**

The Authority was established in 1971 for the purpose of providing housing and housing assistance to the low and very low income, elderly, family and disabled, through low rent housing programs designated to provide decent, safe, affordable and sanitary housing. The Authority operates three separate programs for income eligible housing. These programs are Public Housing, Section 8 Housing Choice Voucher Program, and Governors Houses. A breakdown of the individual programs' financial information can be found in the supplementary information section of the following financial statements.

The Authority's financial statements include the operations of funds that the Authority has established to achieve its purpose. The activity of the Authority is accounted for as a proprietary type fund. The Authority is a component unit of the City of Watertown, South Dakota and its financial statements are included in the Annual Report of the City of Watertown.

#### **Financial Highlights**

- Total assets of the Authority increased \$22,463 as of December 31, 2016.
- Total liabilities of the Authority increased \$95,486 as of December 31, 2016.
- Net position of the Authority decreased \$18,769 as of December 31, 2016.
- Cash and cash equivalents of the Authority increased \$65,122 as of December 31, 2016.
- Unrestricted net position of the Authority increased by \$34,520 as of December 31, 2016.

#### **CAPITAL ASSETS**

As of December 31, 2016, the Authority's investment in capital assets for its business type activities was \$733,396 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment.

The Authority withdrew \$85,443 in Capital Funds in the year 2016. This money was used for operating costs.

#### **LONG-TERM LIABILITIES**

As of December 31, 2016, Long-Term Debt is \$0. The Authority does have a net pension liability as discussed in Note 4.

#### **PROGRAM REVENUES AND EXPENSES BY MAJOR SOURCE AND CATEGORY**

##### **PUBLIC HOUSING**

Total revenues decreased by \$13,463 and expenses increased by \$34,700. The decrease in revenue is due to a decrease in HUD operating grant monies. The increase in expenses comes from an increase in operating expenses.



## **CAPITAL FUNDS**

Capital funds in the amount of \$85,443 were received in 2016. The Capital Funds drawn down were from the year 2014 grant amount. This amount was an increase of \$3,372 from December 31, 2015. The Authority has drawn down the 2015 Capital Fund grant in 2017.

## **SECTION 8 VOUCHERS**

Total revenues decreased by \$57,913 and total expenses increased by \$11,530 from the prior year. The revenue decrease is due to a decrease in HUD housing assistance payments. The increase in expenses is due to an increase in HAP payments and administrative expenses.

## **BUSINESS ACTIVITIES**

Total revenues increased by \$614 and the total expenses increased by \$642 from the prior year. Revenues and expenses in Business Activities currently only include the three Governors Houses owned by the Housing Authority.

## **TOTAL REVENUES AND EXPENSES**

Total revenues for 2016 decreased by \$70,762 due to a decrease in HUD operating grant monies and Housing Assistance Payment monies. Total expenses increased by \$46,872. The costs for administrating the programs and maintenance account for the increase in expenses. During 2016 WHA added a part-time office position.

## **Financial Statements**

The discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The Authority is accounted for utilizing fund accounting. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Authority provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets and liabilities, the difference between the two reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the Authority. The Statement of Revenues, Expenses and Changes in Net Position summarizes the Authority's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Authority as it conducts its business.

### **Statements of Net Position**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
<b>ASSET AND DEFERRED OUTFLOW OF RESOURCES</b>			
Current assets	\$ 655,727	\$ 579,324	\$ 76,403
Capital assets	733,396	752,316	(18,920)
Other assets	-	35,020	(35,020)
Deferred outflow of resources	<u>67,058</u>	<u>62,840</u>	<u>4,218</u>
Total assets and deferred outflow	\$ <u>1,456,181</u>	\$ <u>1,429,500</u>	\$ <u>26,681</u>
<b>LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>			
Current liabilities	\$ 115,421	\$ 49,317	\$ 66,104
Other liabilities	29,382	-	29,382
Deferred inflow of resources	<u>1,637</u>	<u>51,673</u>	<u>(50,036)</u>
Total liabilities and deferred inflow	<u>146,440</u>	<u>100,990</u>	<u>45,450</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	733,396	752,316	(18,920)
Unrestricted net position	536,883	502,363	34,520
Restricted for housing assistance payments and SDRS pension purposes	<u>39,462</u>	<u>73,831</u>	<u>(34,369)</u>
Total net position	<u>1,309,741</u>	<u>1,328,510</u>	<u>(18,769)</u>
Total liabilities and net assets	\$ <u>1,456,181</u>	\$ <u>1,429,500</u>	\$ <u>26,681</u>

# **Statements of Revenues, Expenses and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
<b>OPERATING REVENUES:</b>			
Dwelling rental income	\$ 336,918	\$ 329,769	\$ 7,149
Other	<u>14,454</u>	<u>15,743</u>	<u>(1,289)</u>
Total operating revenues	<u>351,372</u>	<u>345,512</u>	<u>5,860</u>
<b>OPERATING EXPENSES:</b>			
Rental assistance payments	655,768	654,188	1,580
General and administrative	<u>603,042</u>	<u>557,750</u>	<u>45,292</u>
Total operating expenses	<u>1,258,810</u>	<u>1,211,938</u>	<u>46,872</u>
 <b>OPERATING GAIN/ LOSS</b>	 (907,438)	 (866,426)	 (41,012)
 <b>NET NONOPERATING REVENUES</b>	 <u>888,669</u>	 <u>965,291</u>	 <u>(76,622)</u>
 <b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	 <u>(18,769)</u>	 <u>98,865</u>	 <u>(117,634)</u>
 <b>CHANGE IN NET ASSETS</b>	 (18,769)	 98,865	 (117,634)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 1,328,510	 1,188,108	 140,402
Prior period adjustment-GASB 68	<u>-</u>	<u>41,537</u>	<u>(41,537)</u>
<b>NET ASSETS, END OF YEAR</b>	\$ <u>1,309,741</u>	\$ <u>1,328,510</u>	\$ <u>(18,769)</u>

## Contacting the Authority's Financial Management

This report is presented to provide additional information regarding the operations of the Authority and to meet the requirements of GASB Statement No. 34.

The information in this report is intended to provide the reader with an overview of the Authority's operations along with the Authority's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Watertown Housing Authority, 24 West Kemp, Watertown, SD.

**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**STATEMENTS OF NET POSITION  
December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash	\$ 628,807	\$ 563,685
Accounts receivable	3,585	64
Prepaid expenses	23,335	15,575
<b>Total Current Assets</b>	<b>655,727</b>	<b>579,324</b>
<b>Noncurrent Assets:</b>		
Net pension asset	-	35,020
Capital assets		
Land and land improvements	160,997	152,450
Dwelling structures	2,855,000	2,803,489
Dwelling equipment	316,967	316,565
Other equipment and improvements	120,593	110,222
	3,453,557	3,382,726
Accumulated depreciation	(2,720,161)	(2,630,410)
	733,396	752,316
<b>Total Noncurrent Assets</b>	<b>733,396</b>	<b>787,336</b>
<b>Total Assets</b>	<b>1,389,123</b>	<b>1,366,660</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	67,058	62,840
<b>Total Deferred Outflows of Resources</b>	<b>67,058</b>	<b>62,840</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	7,380	10,294
Accrued expenses	10,289	8,795
Payment in lieu of taxes	15,292	15,008
Tenant security deposits	17,161	15,220
Unearned revenues	65,299	-
<b>Total Current Liabilities</b>	<b>115,421</b>	<b>49,317</b>
<b>Noncurrent Liabilities:</b>		
Net pension liability	29,382	-
<b>Total Liabilities</b>	<b>144,803</b>	<b>49,317</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related deferred inflows	1,637	51,673
<b>Total Deferred Inflows of Resources</b>	<b>1,637</b>	<b>51,673</b>
<b>Net Position</b>		
Net investment in capital assets	733,396	752,316
Restricted for SDRS pension purposes	36,039	46,187
Restricted for housing assistance payments	3,423	27,644
Unrestricted net position	536,883	502,363
<b>Total Net Position</b>	<b>\$ 1,309,741</b>	<b>\$ 1,328,510</b>

*See Notes to Financial Statements.*



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Operating Revenues</b>		
Dwelling rental	\$ 336,918	\$ 329,769
Other income	14,454	15,743
<b>Total Operating Revenues</b>	<b>351,372</b>	<b>345,512</b>
<b>Operating Expenses</b>		
Administration	180,934	160,984
Depreciation	94,516	93,606
Utilities	59,183	62,696
Ordinary maintenance and operation	158,281	143,332
General	89,969	81,927
Rental assistance payments	655,768	654,188
Nonroutine maintenance	20,159	15,205
<b>Total Operating Expenses</b>	<b>1,258,810</b>	<b>1,211,938</b>
<b>Operating Loss</b>	<b>(907,438)</b>	<b>(866,426)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Department of HUD operating subsidy	887,911	963,959
Interest income	1,445	1,332
Loss on disposition of equipment	(687)	-
<b>Total Nonoperating Revenue</b>	<b>888,669</b>	<b>965,291</b>
<b>Change in Net Position</b>	<b>(18,769)</b>	<b>98,865</b>
Net position, beginning	1,328,510	1,188,108
Prior Period Adjustment for GASB 68	-	41,537
<b>Adjusted Net Position, Beginning</b>	<b>1,328,510</b>	<b>1,229,645</b>
<b>Net Position, Ending</b>	<b>\$ 1,309,741</b>	<b>\$ 1,328,510</b>

*See Notes to Financial Statements.*

**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Cash received from tenants	\$ 338,838	\$ 336,812
Cash payments to suppliers for general supplies and services	(323,098)	(272,627)
Cash payments to housing owners for housing assistance	(655,768)	(654,188)
Cash payments to employees for services	(184,460)	(181,126)
Payment in lieu of taxes	284	917
Other operating revenues	14,454	15,743
<b>Net Cash from Operating Activities</b>	<b>(809,750)</b>	<b>(754,469)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Cash received from Department of HUD	949,710	963,959
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from disposition of property and equipment	225	-
Acquisition of property and equipment	(76,508)	(60,513)
<b>Net Cash from Capital and Related Financing Activities</b>	<b>(76,283)</b>	<b>(60,513)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on cash and cash equivalents	1,445	1,332
<b>Net Change in Cash</b>	<b>65,122</b>	<b>150,309</b>
Cash, beginning	563,685	413,376
<b>Cash, Ending</b>	<b>\$ 628,807</b>	<b>\$ 563,685</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (907,438)	\$ (866,426)
<b>Adjustments to Operating Loss</b>		
Depreciation	94,516	93,606
Changes in assets and liabilities:		
Accounts receivable	(21)	7,168
Prepaid expenses	(7,760)	5,930
Net pension asset	35,020	28,585
Pension related deferred outflows	(4,218)	(11,243)
Accounts payable	(2,914)	8,555
Accrued expenses	1,494	556
Payment in lieu of taxes	284	917
Tenant security deposits	1,941	(125)
Net pension liability	29,382	-
Pension related deferred inflows	(50,036)	(21,992)
<b>Net Cash from Operating Activities</b>	<b>\$ (809,750)</b>	<b>\$ (754,469)</b>

*See Notes to Financial Statements.*



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**1. Nature of Business and Significant Accounting Policies**

*Nature of business*

The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, ("Commission") operates a public housing project ("PHA") comprised of a five story low-rent housing facility consisting of 60 units for elderly or disabled individuals and 25 separate single family low-rent units, provides Section 8 rental assistance payments ("HAP") for approximately 150 low-income families and rents three houses to elderly or disabled individuals in the Watertown, South Dakota area. The majority of the Commission's operating funds come from the U.S. Department of Housing and Urban Development ("HUD").

The six members of the Commission's board are appointed by the mayor, with the approval of City Council. The Commission elects its own chairperson and recruits and employs its own management personnel and other employees. However, the City of Watertown retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the City of Watertown the ability to impose its will on the Commission; therefore, the Commission is a component unit of the City of Watertown.

A summary of the Commission's significant accounting policies follows:

*Basis of accounting*

The Commission is considered a single enterprise fund for financial reporting purposes. The activities of the Commission are recorded under various programs established for the administration of the Commission's operations. The Commission's financial statements have been prepared on the basis of the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through tenant rental and federal housing assistance programs. The Commission's financial statements are presented on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized when incurred. The Commission applies all applicable Government Accounting Standards Board ("GASB") pronouncements.

In the statement of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows reported as capital and related financing activities, noncapital financing activities or investing activities are not reported as components of operating revenues or expenses.

Substantial operating losses result from the essential services that the Commission provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, the Commission receives subsidies from the federal government, primarily the U.S. Department of Housing and Urban Development, in the form of annual grants for operating assistance and contributions for capital improvements.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Deposits and investments*

Deposits: The Commission's deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**1. Nature of Business and Significant Accounting Policies (Continued)**

The actual bank balances at December 31, 2016, were as follows:

Insured (FDIC/NCUA)	\$ 250,000
Uninsured, collateral jointly held by state's/Commission's agent in the name of the state and the pledging financial institution	387,617
	<u>\$ 637,617</u>

The carrying amount of cash and money market accounts on the December 31, 2016, statement of net position was \$628,807.

In general, SDCL 11-7-31 permits the Commission to invest any funds held in reserves or debt service funds, or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control.

Investments: In general, SDCL 4-5-6 permits Commission funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2016, the Commission did not have any investments.

*Property and equipment*

The Commission defines property and equipment as assets with an initial investment of more than \$5,000 and an estimated useful life in excess of one year. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Land improvements	40
Dwelling structures	7-40
Dwelling equipment	7
Other equipment and improvements	3-20

Because of its permanent nature, any amount spent to acquire land and land rights is capitalized and because it is an inexhaustible capital asset, land is not depreciated.

*Fair value of financial instruments*

Unless otherwise indicated, the fair value of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

*Deferred Inflows and Deferred Outflows of Resources*

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

*Payment in lieu of taxes*

The Commission is not required to pay property taxes based on valuations established by the County Commissioners. Instead, payments are made in lieu of taxes, computed at 5% of rent collected.



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**1. Nature of Business and Significant Accounting Policies (Continued)**

*Cash flows*

For purposes of reporting cash flows, the Commission considers all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

*Advertising costs*

The Commission expenses advertising costs as incurred. The advertising costs as of December 31, 2016 and 2015, were \$174 and \$251, respectively.

*Equity Classifications*

Equity is classified as Net Position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

*Application of net position*

It is the Commission’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

*Pensions*

For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS’s fiduciary net position have been determined on the same basis as they are reported by SDRS. The Commission’s contributions and net pension asset (liability) is recognized on an accrual basis of accounting.

**2. Capital Assets**

Capital asset activity for the year ended December 31, 2016, was as follows:

	01/01/16	Additions	Deletions	12/31/16
Land and land improvements	\$ 152,450	\$ 8,547	\$ -	\$ 160,997
Dwelling structures	2,803,489	51,511	-	2,855,000
Dwelling equipment	316,565	2,350	(1,948)	316,967
Other equipment and improvements	110,222	14,100	(3,729)	120,593
Accumulated depreciation	(2,630,410)	(94,516)	4,765	(2,720,161)
	\$ 752,316	\$ (18,008)	\$ (912)	\$ 733,396

**3. Prior Period Adjustment**

Effective January 1, 2015, the Commission implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**3. Prior Period Adjustment (Continued)**

As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015, as follows:

Net Position January 1, 2015, as previously reported	\$ 1,188,108
Restatement for pension accounting:	
Net pension asset	36,842
Pension related deferred outflows of resources	4,695
Net Position January 1, 2015, as restated	\$ 1,229,645

**4. Pension Plan**

*Plan information*

All employees, working more than 20 hours per week, participate in the South Dakota Retirement System ("SDRS"), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors benefits. The right to receive retirement benefits vests after three years of credited service.

Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

*Benefits provided*

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1<sup>st</sup> is indexed to the consumer price index ("CPI") based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more - 3.1% cost of living adjustment ("COLA")
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80.0% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

*Contributions*

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only.



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**4. Pension Plan (Continued)**

The Commission's share of contributions to the SDRS for the years ended December 31, 2016, 2015, and 2014, were \$10,502, \$9,009 and \$9,590, respectively, equal to the required contributions each year.

*Pension liabilities (assets), pension expense, and deferred outflows of resources and deferred inflows of resources to pensions*

At June 30, 2016, the measurement date used for the December 31, 2016, net pension liability, SDRS was 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of SDRS, for the Commission as of December 31, 2016, are as follows:

Proportionate share of net position restricted for pension benefits	\$ 943,864
Less proportionate share of total pension liability	(914,482)
Proportionate share of net pension liability	\$ 29,382

At December 31, 2016, the Commission reported a liability of \$29,382 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on a projection of the Commission's share of contributions to the pension plan relative to the contributions of all participating entities. At December 31, 2016, the Commission's proportion was .0086982%.

For the year ended December 31, 2016, the Commission recognized pension expense of \$20,650. At December 31, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 10,229	\$ -
Changes in assumption	17,598	-
Net difference between projected and actual earnings on pension plan investments	32,683	-
Changes in proportion and difference between Commission's contributions and proportionate share of contributions	1,310	1,637
Commission's contributions subsequent to the measurement date	5,238	-
	\$ 67,058	\$ 1,637

At December 31, 2016, there is \$5,238 reported as deferred outflow of resources related to pensions resulting from Commission contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31	Amount
2017	\$ 16,380
2018	9,929
2019	20,447
2020	13,427
	\$ 60,183

THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

4. Pension Plan (Continued)

*Actuarial assumptions*

The total pension liability (asset) in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	5.83% at entry to 3.87% after 30 years of service
Investment Rate of Return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58%	4.5%
Fixed Income	30	1.8
Real Estate	10	4.6
Cash	2	0.7
	100%	

*Discount rate*

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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NOTES TO FINANCIAL STATEMENTS

December 31, 2016

4. Pension Plan (Continued)

*Sensitivity of liability (asset) to changes in the discount rate:*

The following presents the Commission's proportionate share of net pension liability calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the Commission's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Commission's proportionate share of the net pension liability (asset)	\$ 164,419	\$ 29,382	\$ (80,756)

Full-time employees hired prior to December 31, 2007, also participate in the Housing Renewal and Local Agency Retirement Plan, a cost-sharing, multiple employer defined benefit pension plan established to provide retirement benefits for employees of housing and redevelopment commissions. The right to receive retirement benefits vests after five years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 11-7. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Housing Renewal and Local Agency, 462 South Fourth Avenue, Suite 1500, Louisville, KY 40202-3431. The Commission contributed 1.0% to the Plan for the year ended December 31, 2016. Employees may also make elective contributions. The Commission's share of contributions to this plan for the years ended December 31, 2016, 2015 and 2014, were \$1,217, \$1,195 and \$1,161, respectively.

5. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the year ended December 31, 2016, the Commission managed its risks as follows:

*Employee health insurance*

The Commission purchases health insurance for its employees from a commercial insurance carrier.

*Liability insurance*

The Commission purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

*Workmen's compensation*

The Commission purchases liability insurance for workmen's compensation from a commercial insurance carrier.

*Unemployment benefits*

The Commission provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

6. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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**SCHEDULES OF NET PENSION LIABILITY (ASSET)**

**For the Years Ended December 31, 2016 and 2015**

	2016	2015
Commission's proportion of the net pension liability (asset)	0.8698200%	0.8257000%
Commission's proportionate share of net pension liability (asset)	\$ 29,382	\$ (35,020)
Commission's covered-employee payroll	\$ 165,396	\$ 150,742
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.76%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.89%	104.10%

\*The amounts presented were determined as of the measurement date of the collective net pension asset which is June 30.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Commission will present information for those years for which information is available. Date reported is measured as of the calendar year.

**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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**SCHEDULES OF PENSION CONTRIBUTIONS  
For the Years Ended December 31, 2016 and 2015**

	2016	2015
Contractually required contribution	\$ 10,502	\$ 9,009
Contributions in relation to the contractually required contribution	10,502	9,009
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 175,029	\$ 150,153
Contributions as a percentage of covered-employee payroll	6.00%	6.00%

\*The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is June 30.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Commission will present information for those years for which information is available. Date reported is measured as of the calendar year.

**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**MEMBERS OF THE BOARD OF COMMISSIONERS  
December 31, 2016**

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Dale Howlett	Chairperson	June 30, 2020
Pam Raeder	Vice Chairperson	June 30, 2017
Jackie Abel	Secretary/Treasurer	June 30, 2018
Donna Fuller	Resident Member	June 30, 2021
Tim Sprung	Member	June 30, 2018
Mindy Werder	Member	June 30, 2019
Brad Thorson	City Council Liaison	June 30, 2020



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

Federal Grantor Program or Title	Federal CFDA Number	Expenditures	Amounts Passed Through to Subrecipients
<b>U.S. Department of Housing and Urban Development</b>			
Direct Federal Funding:			
Public and Indian Housing	14.850	\$ 90,840	\$ -
Section 8 Housing Choice Vouchers (Note 2)	14.871	711,628	-
Public Housing Capital Fund	14.872	85,443	-
<b>Grand Total</b>		<b>\$ 887,911</b>	<b>\$ -</b>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Housing and Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from those amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: This represents a major federal financial assistance program.

Note 3: The Commission has not elected to use the 10% de minimis cost rate.

THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
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SUPPLEMENTAL FINANCIAL DATA SCHEDULES  
December 31, 2016

Line Item Number	Description	Project Totals	Program Totals	Total
	<b>Assets</b>			
111	Cash-unrestricted	\$ 310,897	\$ 232,027	\$ 542,924
113	Cash-other restricted	-	68,722	68,722
114	Cash-tenant security deposits	15,966	1,195	17,161
100	<b>Total Cash</b>	326,863	301,944	628,807
124	Accounts receivable-other government	-	3,500	3,500
126	Accounts receivable-tenants	85	-	85
120	<b>Total Receivables, Net of Allowance for Doubtful Accounts</b>	85	3,500	3,585
142	Prepaid expenses and other assets	22,040	1,295	23,335
150	<b>Total Current Assets</b>	348,988	306,739	655,727
161	Land	160,997	-	160,997
162	Buildings	2,663,481	191,519	2,855,000
163	Furniture, equipment and machinery-dwellings	316,967	-	316,967
164	Furniture, equipment and machinery-administration	109,355	11,238	120,593
166	Accumulated depreciation	(2,573,072)	(147,089)	(2,720,161)
160	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	677,728	55,668	733,396
180	<b>Total Non-Current Assets</b>	677,728	55,668	733,396
200	Deferred outflow of resources	58,452	8,606	67,058
290	<b>Total Assets and Deferred Outflow of Resources</b>	\$ 1,085,168	\$ 371,013	\$ 1,456,181
	<b>Liabilities</b>			
312	Accounts payable due 90 days or earlier	\$ 7,281	\$ 99	\$ 7,380
322	Accrued compensated absences-current	8,747	1,542	10,289
333	Accounts payable-other government	15,292	-	15,292
341	Tenant security deposits	15,966	1,195	17,161
342	Unearned revenue	-	65,299	65,299
310	<b>Total Current Liabilities</b>	47,286	68,135	115,421
353	Non-current liabilities-other	25,212	4,170	29,382
300	<b>Total Liabilities</b>	72,498	72,305	144,803
400	Deferred inflow of resources	1,424	213	1,637
	<b>Equity/Net Position</b>			
508.4	Net investment in capital assets	677,728	55,668	733,396
511.4	Restricted net position	31,816	7,646	39,462
512.4	Unrestricted net position	301,702	235,181	536,883
513	<b>Total Equity/Net Position</b>	1,011,246	298,495	1,309,741
600	<b>Total Liabilities, Deferred Inflow of Resources and Equity/Net Position</b>	\$ 1,085,168	\$ 371,013	\$ 1,456,181



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA

SUPPLEMENTAL FINANCIAL DATA SCHEDULES (CONTINUED)  
December 31, 2016

Line Item Number	Description	Project Totals	Program Totals	Total
<b>Revenue</b>				
70300	Net tenant rental revenue	\$ 305,844	\$ 18,360	\$ 324,204
70400	Tenant revenue-other	12,714	-	12,714
70500	<b>Total Tenant Revenue</b>	318,558	18,360	336,918
70600	<b>HUD PHA Operating Grants</b>	176,283	711,628	887,911
71100	Investment income-unrestricted	986	459	1,445
71400	Fraud recovery	-	3,452	3,452
71500	Other revenue	11,002	-	11,002
71600	Gain (loss) on sale of capital assets	(687)	-	(687)
70000	<b>Total Revenue</b>	506,142	733,899	1,240,041
<b>Expenses</b>				
91100	Administrative salaries	63,552	16,172	79,724
91200	Auditing fees	9,230	10,370	19,600
91310	Bookkeeping fees	6,500	6,500	13,000
91400	Advertising and marketing	87	87	174
91500	Employee benefit contributions-administrative	21,208	4,019	25,227
91600	Office expenses	21,057	17,113	38,170
91700	Legal expenses	-	1,170	1,170
91800	Travel	1,999	1,870	3,869
91000	<b>Total Operating-Administrative</b>	123,633	57,301	180,934
92100	Tenant services-salaries	24,865	-	24,865
92300	Employee benefit contributions-tenant services	8,298	-	8,298
92400	Tenant services-other	13,972	-	13,972
92500	<b>Total Tenant Services</b>	47,135	-	47,135
93100	Water	20,162	-	20,162
93200	Electricity	26,837	-	26,837
93300	Gas	12,184	-	12,184
93000	<b>Total Utilities</b>	59,183	-	59,183
94100	Ordinary maintenance and operations-labor	72,874	9,946	82,820
94200	Ordinary maintenance and operations-materials and other	25,117	727	25,844
94300	Ordinary maintenance and operations-contracts	22,828	-	22,828
94500	Employee benefit contribution-ordinary maintenance	24,318	2,471	26,789
94000	<b>Total Maintenance</b>	145,137	13,144	158,281
96110	Property insurance	14,367	843	15,210
96120	Liability insurance	1,069	1,070	2,139
96130	Workmen's compensation	3,709	1,119	4,828
96140	All other insurance	1,911	-	1,911
96100	<b>Total Insurance Premiums</b>	21,056	3,032	24,088
96300	Payment in lieu of taxes	15,292	-	15,292
96400	Bad debts-tenants	3,454	-	3,454
96000	<b>Total Other General Expenses</b>	18,746	-	18,746
96900	<b>Total Operating Expenses</b>	414,890	73,477	488,367
97000	<b>Excess of Revenue Over Operating Expenses</b>	91,252	660,422	751,674
97100	Extraordinary maintenance	20,159	-	20,159
97300	Housing assistance payments	-	655,768	655,768
97400	Depreciation expense	89,025	5,491	94,516
90000	<b>Total Expenses</b>	524,074	734,736	1,258,810
10010	Operating transfer in	85,443	-	85,443
10020	Operating transfer out	(85,443)	-	(85,443)
10100	<b>Total Other Financing Sources (Uses)</b>	-	-	-
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$ (17,932)	\$ (837)	\$ (18,769)
11030	Beginning equity	\$ 1,029,178	\$ 299,332	\$ 1,328,510
	<b>Total Ending Equity</b>	\$ 1,011,246	\$ 298,495	\$ 1,309,741
11190	<b>Unit Months Available</b>	1,020	3,816	4,836
11210	<b>Unit Months Leased</b>	980	1,833	2,813



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA

SUPPLEMENTAL FINANCIAL DATA SCHEDULES (CONTINUED)  
December 31, 2016

Line Item Number	Description	Operating Fund Program	Capital Fund Program	Total Projects
<b>Assets</b>				
111	Cash-unrestricted	\$ 310,897	\$ -	\$ 310,897
114	Cash-tenant security deposits	15,966	-	15,966
100	<b>Total Cash</b>	326,863	-	326,863
126	Accounts receivable-tenants	85	-	85
120	<b>Total Receivables, Net of Allowance for Doubtful Accounts</b>	85	-	85
142	Prepaid expenses and other assets	22,040	-	22,040
150	<b>Total Current Assets</b>	348,988	-	348,988
161	Land	160,997	-	160,997
162	Buildings	2,663,481	-	2,663,481
163	Furniture, equipment and machinery-dwellings	316,967	-	316,967
164	Furniture, equipment and machinery-administration	109,355	-	109,355
166	Accumulated depreciation	(2,573,072)	-	(2,573,072)
160	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	677,728	-	677,728
180	<b>Total Non-Current Assets</b>	677,728	-	677,728
200	Deferred outflows of resources	58,452	-	58,452
290	<b>Total Assets and Deferred Outflows of Resources</b>	\$ 1,085,168	\$ -	\$ 1,085,168
<b>Liabilities</b>				
312	Accounts payable due 90 days or earlier	\$ 7,281	\$ -	\$ 7,281
322	Accrued compensated absences-current	8,747	-	8,747
333	Accounts payable-other government	15,292	-	15,292
341	Tenant security deposits	15,966	-	15,966
310	<b>Total Current Liabilities</b>	47,286	-	47,286
353	Non-current liabilities-other	25,212	-	25,212
300	<b>Total Liabilities</b>	72,498	-	72,498
400	Deferred inflows of resources	1,424	-	1,424
<b>Equity/Net Position</b>				
508.4	Net investment in capital assets	677,728	-	677,728
511.4	Restricted net position	31,816	-	31,816
512.4	Unrestricted net position	301,702	-	301,702
513	<b>Total Equity/Net Position</b>	1,011,246	-	1,011,246
600	<b>Total Liabilities, Deferred Inflows of Resources and Equity/Net Position</b>	\$ 1,085,168	\$ -	\$ 1,085,168



THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA

SUPPLEMENTAL FINANCIAL DATA SCHEDULES (CONTINUED)

December 31, 2016

Line Item Number	Description	Operating Fund Program	Capital Fund Program	Total Projects
	<b>Revenue</b>			
70300	Net tenant rental revenue	\$ 305,844	\$ -	\$ 305,844
70400	Tenant revenue-other	12,714	-	12,714
70500	<b>Total Tenant Revenue</b>	318,558	-	318,558
70600	<b>HUD PHA Operating Grants</b>	90,840	85,443	176,283
71100	Investment income-unrestricted	986	-	986
71500	Other revenue	11,002	-	11,002
71600	Gain (loss) on sale of capital assets	(687)	-	(687)
70000	<b>Total Revenue</b>	420,699	85,443	506,142
	<b>Expenses</b>			
91100	Administrative salaries	63,552	-	63,552
91200	Auditing fees	9,230	-	9,230
91310	Bookkeeping fees	6,500	-	6,500
91400	Advertising and marketing	87	-	87
91500	Employee benefit contributions-administrative	21,208	-	21,208
91600	Office expenses	21,057	-	21,057
91800	Travel	1,999	-	1,999
91000	<b>Total Operating-Administrative</b>	123,633	-	123,633
92100	Tenant services-salaries	24,865	-	24,865
92300	Employee benefit contributions-tenant services	8,298	-	8,298
92400	Tenant services-other	13,972	-	13,972
92500	<b>Total Tenant Services</b>	47,135	-	47,135
93100	Water	20,162	-	20,162
93200	Electricity	26,837	-	26,837
93300	Gas	12,184	-	12,184
93000	<b>Total Utilities</b>	59,183	-	59,183
94100	Ordinary maintenance and operations-labor	72,874	-	72,874
94200	Ordinary maintenance and operations-materials and other	25,117	-	25,117
94300	Ordinary maintenance and operations-contracts	22,828	-	22,828
94500	Employee benefit contribution-ordinary maintenance	24,318	-	24,318
94000	<b>Total Maintenance</b>	145,137	-	145,137
96110	Property insurance	14,367	-	14,367
96120	Liability insurance	1,069	-	1,069
96130	Workmen's compensation	3,709	-	3,709
96140	All other insurance	1,911	-	1,911
96100	<b>Total Insurance Premiums</b>	21,056	-	21,056
96300	Payment in lieu of taxes	15,292	-	15,292
96400	Bad debts-tenants	3,454	-	3,454
96000	<b>Total Other General Expenses</b>	18,746	-	18,746
96900	<b>Total Operating Expenses</b>	414,890	-	414,890
97000	<b>Excess of Revenue Over Operating Expenses</b>	5,809	85,443	91,252
97100	Extraordinary maintenance	20,159	-	20,159
97400	Depreciation expense	89,025	-	89,025
90000	<b>Total Expenses</b>	524,074	-	524,074
10010	Operating transfer in	85,443	-	85,443
10020	Operating transfer out	-	(85,443)	(85,443)
10100	<b>Total Other Financing Sources (Uses)</b>	85,443	(85,443)	-
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$ (17,932)	\$ -	\$ (17,932)
11030	Beginning Equity	\$ 1,029,178	\$ -	\$ 1,029,178
	<b>Total Ending Equity</b>	\$ 1,011,246	\$ -	\$ 1,011,246
11190	<b>Unit Months Available</b>	1,020	-	1,020
11210	<b>Unit Months Leased</b>	980	-	980

THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA

SUPPLEMENTAL FINANCIAL DATA SCHEDULES (CONTINUED)

December 31, 2016

Line Item Number	Description	Business Activities	Housing Choice Vouchers	Total Programs
	<b>Assets</b>			
111	Cash-unrestricted	\$ 110,136	\$ 121,891	\$ 232,027
113	Cash-other restricted	-	68,722	68,722
114	Cash-tenant security deposits	1,195	-	1,195
100	<b>Total Cash</b>	111,331	190,613	301,944
124	Accounts receivable-other government	-	3,500	3,500
120	<b>Total Receivables, Net of Allowances for Doubtful Accounts</b>	-	3,500	3,500
142	Prepaid expenses and other assets	-	1,295	1,295
150	<b>Total Current Assets</b>	111,331	195,408	306,739
162	Buildings	147,521	43,998	191,519
164	Furniture, equipment and machinery-administration	-	11,238	11,238
166	Accumulated depreciation	(94,695)	(52,394)	(147,089)
160	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	52,826	2,842	55,668
180	<b>Total Non-Current Assets</b>	52,826	2,842	55,668
200	Deferred outflows of resources	-	8,606	8,606
290	<b>Total Assets and Deferred Outflows of Resources</b>	\$ 164,157	\$ 206,856	\$ 371,013
	<b>Liabilities</b>			
312	Accounts payable due 90 days or earlier	\$ -	\$ 99	\$ 99
322	Accrued compensated absences-current	-	1,542	1,542
341	Tenant security deposits	1,195	-	1,195
342	Unearned revenue	-	65,299	65,299
310	<b>Total Current Liabilities</b>	1,195	66,940	68,135
353	Non-current liabilities-other	-	4,170	4,170
300	<b>Total Liabilities</b>	1,195	71,110	72,305
400	Deferred inflows of resources	-	213	213
	<b>Equity/Net Position</b>			
508.4	Net investment in capital assets	52,826	2,842	55,668
511.4	Restricted net position	-	7,646	7,646
512.4	Unrestricted net position	110,136	125,045	235,181
513	<b>Total Equity/Net Position</b>	162,962	135,533	298,495
600	<b>Total Liabilities, Deferred Inflows of Resources and Equity/Net Position</b>	\$ 164,157	\$ 206,856	\$ 371,013



**THE HOUSING AND REDEVELOPMENT COMMISSION OF THE CITY OF WATERTOWN,  
SOUTH DAKOTA, A COMPONENT UNIT OF THE CITY OF WATERTOWN, SOUTH DAKOTA**

**SUPPLEMENTAL FINANCIAL DATA SCHEDULES (CONTINUED)**  
**December 31, 2016**

Line Item Number	Description	Business Activities	Housing Choice Vouchers	Total Programs
<b>Revenue</b>				
70300	Net tenant rental revenue	\$ 18,360	\$ -	\$ 18,360
70500	<b>Total Tenant Revenue</b>	18,360	-	18,360
70600	<b>HUD PHA Operating Grants</b>	-	711,628	711,628
71100	Investment income-unrestricted	176	283	459
71400	Fraud recovery	-	3,452	3,452
70000	<b>Total Revenue</b>	18,536	715,363	733,899
<b>Expenses</b>				
91100	Administrative salaries	-	16,172	16,172
91200	Auditing fees	1,900	8,470	10,370
91310	Bookkeeping fees	-	6,500	6,500
91400	Advertising and marketing	-	87	87
91500	Employee benefit contributions-administrative	-	4,019	4,019
91600	Office expenses	-	17,113	17,113
91700	Legal expenses	-	1,170	1,170
91800	Travel	-	1,870	1,870
91000	<b>Total Operating-Administrative</b>	1,900	55,401	57,301
94100	Ordinary maintenance and operations-labor	-	9,946	9,946
94200	Ordinary maintenance and operations-materials and other	727	-	727
94500	Employee benefit contribution-ordinary maintenance	-	2,471	2,471
94000	<b>Total Maintenance</b>	727	12,417	13,144
96110	Property insurance	843	-	843
96120	Liability insurance	-	1,070	1,070
96130	Workmen's compensation	-	1,119	1,119
96100	<b>Total Insurance Premiums</b>	843	2,189	3,032
96900	<b>Total Operating Expenses</b>	3,470	70,007	73,477
97000	<b>Excess of Revenue Over Operating Expenses</b>	15,066	645,356	660,422
97300	Housing assistance payments	-	655,768	655,768
97400	Depreciation expense	4,966	525	5,491
90000	<b>Total Expenses</b>	8,436	726,300	734,736
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$ 10,100	\$ (10,937)	\$ (837)
11030	Beginning Equity	\$ 152,862	\$ 146,470	\$ 299,332
	<b>Total Ending Equity</b>	\$ 162,962	\$ 135,533	\$ 298,495
11170	Administrative Fee Equity	\$ -	\$ 132,110	\$ 132,110
11180	Housing Assistance Payment Equity	-	3,423	3,423
	<b>Total Ending Equity</b>	\$ -	\$ 135,533	\$ 135,533
11190	<b>Unit Months Available</b>	36	3,780	3,816
11210	<b>Unit Months Leased</b>	36	1,797	1,833